

## *Evaluating Value Capture Financing Options for Public Transportation – A Summary of TCRP Research Report 190*

**V**alue Capture, or the recovery of private revenues due to transit investment, is becoming an important aspect of public transportation financing. The exploitation of private development and partnerships is one option that transit agencies have when faced with possible funding reductions from local or federal sources; a real threat in today's environment. When done successfully, value capture can fund 20%-50% of a project's capital costs, and supplement traditional funding sources such as local sales/property taxes, state and federal grants, bonds, and government loan programs (such as TIFIA and RRIF). With that fact noted, this document seeks to layout the key takeaways on transit value capture and provide appropriate examples of usage.

### **Existing Conditions**

Prior to commencing a successful value capture initiative, there are existing conditions that should be assessed for the project area:

1. Economic- Is there either existing growth or reasons to assume that the area is prone to future growth? Are the market conditions right? (Note population density, income growth, employment levels, occupancy rates, real estate price trends, prospects for planned developments/corporate relocation). Is there private sector interest?
2. Regulatory- Do current zoning regulations allow for the necessary development that is required to achieve successful value capture? (If not, what can be changed?) Is value capture permitted by local or state authorities? How will federal regulations be followed? (transit projects using federal funds must comply with NEPA: <https://www.epa.gov/nepa/national-environmental-policy-act-review-process>).
3. Financial- How can the case for private involvement best be marketed? Is the value capture structure financially viable? What are the risks and how will they be accounted for?
4. Organizational- Who are the main partners? (transit agency, local government, land owner, private developer, financier)

## Identifying the Correct Value Capture Tool

### Impact Fees

Impact fees are a form of value capture where payments are collected from newly developed real estate around public infrastructure. The fees may go into a fund directed towards further investments in the area, or to recouping the costs of previous capital investments. The method differs from other value capture methods in that the fees are usually collected up-front when a development is launched, rather than in the future. Impact fees are somewhat rare in transit (only around one-half of states currently permit the use for transit, which is typically limited to capital costs) and are more commonly used with residential development. However, California and Florida are two states that currently allow the use impact fees for both transit capital and operating costs. As shown below, impact fees can contribute to the local match required for federally-funded capital projects. For a municipality wishing to move forward with transit impact fees, they must be willing to devote resources to studying the proposed impacts, reaching out to stakeholders (planners, transit providers, municipalities, agencies, the private sector), and to developing an ordinance with language that is applicable with state law.

Example: San Francisco has had transit impact development fees (TIDF) since 1981, to provide additional revenue for Muni (SFMTA) in anticipation of higher transit demand. The growth in downtown San Francisco led the Board of Supervisors to enact fees on new additional downtown office developments (or conversion of use to such) to support the expansion of MUNI service capacity. However, spending was limited to improvements that would help improve peak period service over 1981 levels. In 2004, the Board of Supervisors expanded the development fees to all nonresidential uses throughout the city. They also allowed fee revenues to be used to increase service at any location within the MUNI system so that revenue hours could meet existing service standards. In 2011, a new ordinance lowered the threshold for triggering the development fees, from 3000 square feet of new development to 800 square feet, with a credit available for small businesses or projects that provide less parking than the maximum amount authorized. Rates per square foot ranged from anywhere between \$6.80 to \$13.30, depending on use. Most recently in December of 2015, the TIDF was replaced by the Transportation Sustainability Fee, which further increased fees and expanded applicability to include large, market-rate residential projects. The new fee is expected to increase revenues by about \$14 million a year, to an average of \$38 million annually. The money will continue to fund new transit vehicles and infrastructure maintenance.

### Joint Development

Joint development refers to the practice of developing public transit agency-owned land in partnership with a private entity. This may also include the selling or leasing air rights over public transportation agency land. This can provide new sources of revenue for public transportation agencies, meaning more funding for transit improvements. Depending on how much land the agency owns, its role in the development could be limited. Note the FTA's criteria for joint development projects eligible for funding:

<https://www.transit.dot.gov/funding/funding-finance-resources/joint-development/fta-guidance-joint-development>

Example: "In 1981, the Bethesda Metro Center Limited Partnership entered into a 50-year lease agreement with the Washington Metropolitan Area Transit Authority (WMATA), the regional transit agency. The project

contains a variety of office, retail, and hotel space, and generates minimum annual lease revenue of \$1.6 million.”  
-TCRP Research Report 190 page 17

## **Land Value Taxation**

Though not as common in the United States, land value taxation is another way of capturing the value of public infrastructure. It works by placing a levy on the unimproved value of land rather than structural building improvements (or taxing the land at a higher rate than the buildings). This gives developers an incentive to build rather than wait for the value of the land to keep rising, as they will want to bring in income from high valued land (areas close to public transit). With developers taxed on their land ownership rather than their building ownership, it is argued that more supply will be offered in compact developments near transit, therefore disincentivizing sprawl.

Example: “Pittsburgh taxes buildings at one-sixth the tax rate on land values. In spite of the severe depression in steel and related industries that was occurring during this time, residential and office development within Pittsburgh grew substantially.” -Rick Rybeck, “Tax Reform Motivates Sustainable Development”

## **Parking Fees**

Parking fees may be established within a district, or region-wide to fund transit investment.

Example: Portland implemented a parking fee to compliment the use of TIF and SADs when building its streetcar project. As potential TOD redevelopment areas were identified, the City of Portland, TriMet, and Portland Streetcar Inc. joined with private developers to develop plans. A business-friendly marketing case was made to garner support for the streetcar. They argued that the increased density (through zoning adjustments) would bring up property values. The parking bonds ended up paying for 11.3% of the total project costs, or \$28.6 million.

## **Naming Rights**

A public agency may choose to sell a station or another asset’s naming rights to a private entity in exchange for an up-front or ongoing payment.

Examples: Cleveland RTA Healthline, MTS UC San Diego Blue Line, Salesforce Transit Center, MTA WiFi (<https://transitwirelesswifi.com/>)

## **Negotiated Extractions**

Direct payments to local governments from a private developer can be used to offset development investment costs. These may be set a necessary condition before a development approval is granted.

Example: This method was utilized in the Boston Landing development project in which New Balance developed its new headquarter building and the surrounding land- a \$500 million project. When regulations prevented the NB Development Group from realizing their parking objective, they sought to utilize the nearby MBTA Framingham/Worcester commuter rail line to increase transportation options. In 2012, NB Development agreed to design, fund, and construct a new \$25 million MBTA station at the site and pay for its operation and

maintenance costs for 10 years (\$470,000). The station also aligned with New Balance's desire to be more leading edge and youthful. While an infill station had been proposed in various studies, MBTA did not have the resources to act alone. MassDOT provided \$800,000 towards station construction and \$8.3 million towards signal and track work for the Worcester line. Note that because NB Development procured the contracts, it was not eligible for federal funding (state funding was a possibility). The station opened in May, 2017.

### **Special Assessment Districts (SAD)**

Local jurisdictions may create special assessment districts around public transit infrastructure to bring in revenue from beneficiaries. They can impose new fees or tax increases on property owners within those areas to reimburse public investments in transit. The taxes can be based on property value, or sales, special business fees, or other measures of value, and can last for a fixed duration of time. SADs generate revenue from both existing and future developments (not the case for impact fees and negotiated extractions). Note that in order to implement a SAD, a referendum vote of property owners is typically required to pass. In some jurisdictions, SADs are prohibited.

Example: Value capture was essential in financing Washington Metro's Dulles Corridor Project (one-fifth of Phase 1 was funded through value capture). This project required multiple partners, from WMATA (responsible for operations), to the Metropolitan Washington Airport Authority (responsible for construction), LEADER (a private development group that helped organize and advocate for funding), to local, state, and federal governments. Fairfax County established a special tax district on commercial and industrial properties in 2004 to fund the county's portion of Phase 1 of the project (referred to as Transportation Improvement Districts-TID). Before TIDs could be put in place, however, the Commonwealth of Virginia had to enact legislation allowing for the use of SADs. The first district consisted of most of the Tysons Corner Urban Center (most of the Phase 1 stations) and implemented a TID tax of 19%. It was determined that the assessed value from the Phase 1 TID doubled from 2001 to 2010 (to \$12.4 billion) despite an economic downturn. The fact that Tysons area employment is expected to grow by 63% in the next 25 years helped convince both local leaders and the rating agencies. In 2009 the county established a special tax district consisting of the area around its Phase 2 stations to pay for that portion of the project; the tax rate started at \$0.05 per \$100 and increased five cents each year to \$0.20 per \$100 in FY 2014. The revenues from this are expected to pay off the \$403 million TIFIA loan granted to Fairfax county, though there is no legal obligation to do so. Loudoun County also implemented a Metrorail Service District to pay for its portion of Phase 2 of the project (a levy of \$0.20 per \$100 of value). Phase 1 (\$2.9 billion) opened in 2014, with Phase 2 (\$2.7 billion) expected to open in 2019.

### **Tax Increment Financing (TIF)**

Tax Increment Financing districts can be established by local or state governments to raise funds from the properties within. The tax revenue within a district is capped at a certain level and all revenue over the capped amount, resulting from the increase in value, is directed into the TIF fund. In other words, value is captured from the market appreciation of current development, and the incremental value of new development because of transit investment. Because this occurs over time, developers are not overburdened with up-front costs. TIF has been used to finance station infrastructure, parking facilities, and other capital projects.

Example: Denver utilized a TIF district (along with other value capture tools) for its Union Station redevelopment project, in which the station would be transformed into a multimodal hub of bus, light rail, commuter rail, and Amtrak. The surrounding area was planned to become a variety of mixed-use TOD, as downtown real estate demand was predicted to increase dramatically in the coming years. The Denver Regional Transportation District (RTD) partnered with other public organizations to develop a master plan, such as the City and County of Denver, the Denver Regional Council of Governments, and the Colorado Department of Transportation. The Continuum/East-West Development Partners (now the Union Station Neighborhood Company) was selected to be the private developer, and proposed a budget of \$480 million, which was roughly half of what was originally estimated (partly through design changes involving the grade of the light rail and commuter rail alignments). The Denver Union Station Project Authority (DUSPA) was formed to represent all parties as the legal entity involved with managing, financing, and implementing the project, including issuing tax-exempt debt. The Denver Downtown Development Authority (DDA) was created by statute and had authority to utilize TIF (to pay back federal loans and other debts). Project financing involved money allocated from RTD's 2004 transportation sales tax increase (resulting in \$12 million annual payments), tax increment revenue (a millage rate of 67 for 30 years), a \$155 million RRIF loan, a \$145 million TIFIA loan, a property tax (through Metropolitan districts), and a variety of state and federal grants. Note that the RRIF loan was secured by the full faith and credit of the City and County of Denver in the event of a shortfall in revenue from TIF. Finally, while TIF revenues are expected to become the major funding source, payments from RTD's sales tax revenues were the dominant source of funding in the earlier years. After 13 years of planning and construction, the Denver Union Station Project was completed in 2014.

### **Other Important Financing Factors- Credit and Federal Loans**

Once a value capture tool is identified, additional debt financing may need to be identified before the developer feels comfortable moving forward (the notion of value capture in itself is usually not enough to secure loans). It is stressed that having investment grade bond ratings (above BBB for Standard & Poor's) are crucial for projects reliant on real estate revenues. In other words, having a backup revenue source or guarantee (typically from a transit agency or a local government) is important for investors, and will typically secure an "A" rating for bonds. These full-faith guarantees may be based off a dependable revenue stream such as a sales or property tax (see case studies above). Debt that is only secured by value capture real estate revenues for a site not yet developed is not likely to be assigned an investment grade by credit rating agencies. Some of Fitch Rating's key criteria involve the strength of the issuer pledge, the framework of the revenue source, the expenditure framework, the long-term liability burden, and the operating performance.

Getting the support from federal programs can help complement and jumpstart value capture projects. The most notable is the USDOT Transportation Infrastructure Finance and Investment Act (TIFIA) and the related Railroad Rehabilitation & Improvement Financing (RRIF) loan programs. Both involve below-market rate loans and flexible repayment terms. This makes them uniquely suitable for value capture projects, since the standards require a dedicated revenue source such as value capture revenue. The TIFIA program also requires that any senior debt must be investment grade. The 2015 FAST Act made some helpful adjustments to the TIFIA program, included expanding its eligibility to include TOD-specific and local infrastructure projects. The project cost requirement for TOD and local infrastructure was lowered from \$50 million to \$10 million, making more smaller projects eligible. Finally, the FAST Act reduced application costs for low-cost and low-risk projects.

*For more information, see Chapter 6 of the “Guide to Value Capture Financing for Public Transportation Projects.”*

## **In Summary**

Value capture is a set of powerful funding tools that is gaining in popularity. In pursuing these tools, public agencies should plan for the following recommendations:

- Engage with legal counsel to evaluate all possible value capture options based on project funding needs and explore possible land parcels near the project area.
- Make sure that the existing conditions and market timing are ideal for action.
- Form partnerships between public and private entities at an early stage. Note that pre-transit speculation can erode post-transit value capture if the market develops faster than the project proceeds.
- Remove/alter statutes that prevent value capture mechanisms, require segregation of land uses, set minimum parking requirements, or install density maximums.
- Anticipate risks when planning (project delays, project scope changes, economic downturns, higher than expected costs). May need to provide additional guarantees to further attract investors and be flexible with the project timeline.
- Engage a wide variety of stakeholders and consider forming a task force to help guide the project forward.

## **References**

APTA, 2015. “Value Capture for Public Transportation Projects: Examples”

<https://www.apta.com/resources/reportsandpublications/Documents/APTA-Value-Capture-2015.pdf>

Rick Rybeck, 1996. “Tax Reform Motivates Sustainable Development” AIA | DC News.

<http://www.justeconomicsllc.com/pdfs/TaxReformMotivatesSustDvlpmt-AIA-96.pdf>

San Francisco Planning Department, “New Planning Code Transit Impact Development Fee Update”

[http://www.gsweventcenter.com/Website\\_Refs/120523\\_TIDF\\_Transportation\\_Impact\\_Development\\_Fee\\_Update.pdf](http://www.gsweventcenter.com/Website_Refs/120523_TIDF_Transportation_Impact_Development_Fee_Update.pdf)

San Francisco Planning Department, “INVEST: Transportation Sustainability Fee” <http://sf-planning.org/invest-transportation-sustainability-fee>

National Academies of Sciences, Engineering, and Medicine. 2016. “Guide to Value Capture Financing for Public Transportation Projects” <https://doi.org/10.17226/23682>

National Academies of Sciences, Engineering, and Medicine. 2008. “Uses of Fees or Alternatives to Fund Transit” <https://doi.org/10.17226/23068>

## Acknowledgements

---

Authors of “Guide to Value Capture Financing for Public Transportation Projects, TCRP Research Report 190.” Sasha Page, Bill Bishop, and Waiching Wong.

### For More Information

---

MacPherson Hughes-Cromwick  
Policy Analyst  
202.496.4812 | [mhughes-cromwick@apta.com](mailto:mhughes-cromwick@apta.com)

### For General Information

---

**Policy Development and Research**  
Darnell Grisby, Director  
202.496.4887 | [dgrisby@apta.com](mailto:dgrisby@apta.com)  
[www.apta.com/resources/](http://www.apta.com/resources/)

**The APTA Policy Department**  
Art Guzzetti, Vice President-Policy  
202.496.4814 | [aguzzetti@apta.com](mailto:aguzzetti@apta.com)

## The American Public Transportation Association (APTA)

Richard White, President and CEO

The American Public Transportation Association (APTA) is a nonprofit international association of 1,500 public and private sector organizations, engaged in the areas of bus, paratransit, light rail, commuter rail, subways, waterborne services, and intercity and high-speed passenger rail. This includes: transit systems; planning, design, construction, and finance firms; product and service providers; academic institutions; transit associations and state departments of transportation. APTA is the only association in North America that represents all modes of public transportation. APTA members serve the public interest by providing safe, efficient and economical transit services and products.

## APTA Vision Statement

---

APTA is the leading force in advancing public transportation.